1984 Annual Report

INTERCO

GENERAL RETAIL MERCHANDISING

FURNITURE AND HOME FURNISHINGS

APPAREL MANUFACTURING

FOOTWEAR MANUFACTURING AND RETAILING

C

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Highlights

Years Ended	February 29, 1984	February 28, 1983	Increase
From operations:			
Net sales	**$2,678,886,000**	$2,566,606,000	4.4%
Earnings before income taxes	**221,021,000**	165,876,000	33.2%
Net earnings	**116,194,000**	85,762,000	35.5%
As a percent of sales	**4.3%**	3.3%	
Per share of common stock:			
Earnings	**$7.02**	$5.22	34.5%
Dividends	**$2.88**	$2.88	
Financial condition at year end:			
Working capital	**$ 852,847,000**	$ 828,842,000	2.9%
Current ratio	**4.2 to 1**	4.5 to 1	
Total assets	**1,607,832,000**	1,554,975,000	3.4%
Shareholders' equity	**1,100,963,000**	1,023,231,000	7.6%
Book value per common share	**$68.82**	$64.64	6.5%
Return on shareholders' average investment	**11.0%**	8.6%	
Shares outstanding at year end:			
Common	**14,832,859**	14,425,609	
Preferred	**802,085**	908,136	
Number of shareholders	**12,300**	13,400	
Number of employees	**51,000**	52,000	

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAY 24 1984
McGILL UNIVERSITY

To Our Shareholders

At the beginning of this fiscal year, your management set a number of goals to be achieved. These included:

- A resumption of growth in sales volume;
- A strong earnings rebound from the depressed levels of the previous year which resulted from the poor economic climate;
- Continued emphasis on cost and expense control programs;
- Further improvement of the company's asset management performance; and
- Increased return on shareholders' equity.

We are pleased to report that each of these goals was achieved in fiscal 1984. Sales for the year totalled $2.68 billion, an increase of 4.4% over the prior year. It is significant to note that each of INTERCO's four operating groups achieved sales gains, led by the Furniture and Home Furnishings Group whose volume increased 17.8% over fiscal 1983.

Net earnings reflected a solid recovery and totalled $116.2 million, a gain of 35.5% over last year. Each of INTERCO's groups achieved improved operating earnings. Of equal importance, the after-tax return on sales rose to 4.3% from 3.3% in the prior year. Our strategic plans are aimed at a higher net return on sales and this year's results show good progress. During the year, the rate of profitability increased with each successive quarter, reaching 5.7% in the fourth quarter.

Our cost and expense reduction efforts spanned a wide range of activities, including continued investment in state-of-the-art manufacturing, computer and office automation equipment. Specific projects were aimed at containing energy costs, revising shipping techniques to reduce freight costs, and changes in operating processes and methods to improve productivity, while maintaining or improving quality standards. The progress made in these areas is reflected by improved gross margin and expense ratios for the year.

A major program to utilize assets more effectively was initiated two years ago. This is an ongoing effort and, in fiscal 1984, when compared to the previous year, the company's accounts receivable collection results and inventory turnover improved. Cash flow continued strong and the company's financial condition is excellent. At year end, our working capital ratio was 4.2 to 1, and our debt-to-capitalization ratio improved to 15.9%. Total debt was reduced $59.0 million during the year while, at the same time, capital expenditures increased to $51.1 million.

Achieving a higher return on shareholders' equity is a major goal of management. In fiscal 1984, the return on equity was raised to 11.0% from 8.6% a year ago. In addition to better asset management, a well-directed acquisition program and the selective redeployment of assets are key components of this effort. The closing or relocation of marginal facilities continued this past year and, in the second half, a major portion of the P. N. Hirsch retail operation was sold. Further, the acquisition of the Abe Schrader Corporation was initiated in the fourth quarter and was completed in March of the current year. Abe Schrader Corporation is an important addition to INTERCO and a separate section of this Annual Report is devoted to this fine company and its products.

It is with deep appreciation that we acknowledge the contributions of Mr. Norfleet H. Rand, retired Vice-Chairman of the Board, and a Director since 1956. Mr. Rand will be retiring as a Director this year. At the corporate level, on June 27, 1983, Mr. Saligman was elected Chief Executive Officer of the company succeeding Mr. Riedy who continues as Chairman of the Board.

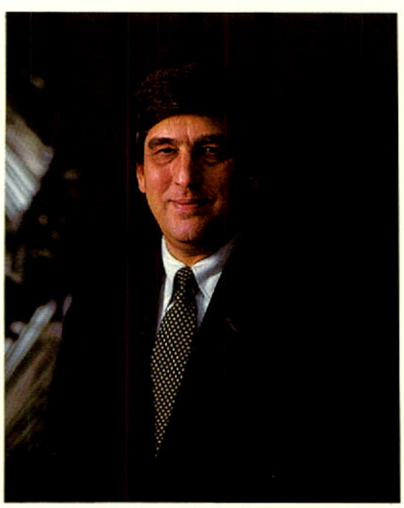
The current outlook for the company remains positive. Consumer confidence has gained substantially during the year, the rate of unemployment is lower, and the nation's economy is continuing to show a vigorous rate of growth. Under these conditions, we look forward to further improvement by INTERCO in the year ahead.

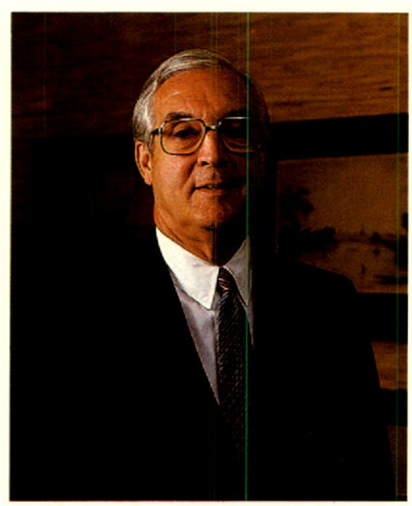
This year's Annual Report emphasizes INTERCO's entrepreneurial spirit, a product of our decentralized management philosophy. This concept was developed to foster initiative and creativity in each of the INTERCO companies. We wish to thank our loyal and conscientious employees for their efforts toward making this philosophy successful. We also wish to thank our customers for making it all possible and our shareholders for their continued support and confidence.

Harvey Saligman
President and Chief
Executive Officer

John K. Riedy
Chairman of the Board

April 9, 1984





ENTREPRENEURIAL MANAGEMENT IN ACTION

Through its entrepreneurial management philosophy INTERCO has achieved the marketing strength, the merchandising power, the brand name acceptance and the growth which characterize the INTERCO companies.

The principal officer of each of the operating companies, subject to the corporate policies established by INTERCO, has complete responsibility and autonomy for that company's operations, including development of product lines, merchandising and marketing, asset management, profits and growth, and is responsible for attaining the performance required by INTERCO.

Budgets and forecasts are an integral part of our corporate procedures and these executives are also responsible for preparation of annual profit plans and monthly updates, all of which are reviewed by corporate management.

In addition to the corporate Board of Directors, INTERCO has an Operating Board consisting of 25 members, 22 of whom are the principal officers of our major operating companies. This Operating Board is the heart of our business, and is an excellent communication medium. Meeting each month, members share financial information and are updated on current company and market trends. Each member has the opportunity and is encouraged to discuss any appropriate subject, and many topics are addressed, drawing upon the collective experience of the Operating Board members.

Further, each of these companies has its own Operating Board, consisting of its management team plus four INTERCO senior corporate officers. Each company's board meets quarterly at its headquarters for a detailed review of their business.

Corporate headquarters in St. Louis has approximately 75 people, most of whom provide support services to the operating companies in such areas as auditing, accounting, legal, finance, tax and insurance. This central support enables these companies to concentrate on the operational aspect of their businesses and maximize profitability and growth.

Since INTERCO recognizes the importance of the entrepreneurial spirit in its managers, we are interested in acquiring a company only if the management wishes to continue on an active basis. An acquisition occurs when INTERCO and a seller who shares our philosophy get together. Of great importance to them is the knowledge that, after acquisition, they continue to run the company with our corporate support and resources. We provide added financial incentives to the heads of the businesses and their management teams based on their earnings and growth.

The monthly Operating Board meeting at INTERCO's corporate headquarters in St. Louis.

Abe Schrader joins INTERCO

Abe Schrader Corporation, headquartered in New York City, joined INTERCO on March 15, 1984, following completion of our 1984 fiscal year. The company was founded in 1952 by Abraham Schrader.

Abe Schrader Corporation designs, manufactures and sells diversified lines of ladies' ready-to-wear, including dresses, suits, sportswear, coats and ensembles, priced in the medium to higher price ranges. The Schrader organization has consistently supplied quality products to leading department and specialty stores.

The company has a large national sales force and showrooms in New York and other major cities.

The company's products are sold under several labels:

- *Abe Schrader*—An exclusive collection of suits and dresses for day and evening wear.
- *A Trigère Coat*—Designed by Pauline Trigère.
- *Schrader Sport Dresses*—A line of casual dresses in missy, petite and half sizes.
- *Schrader Sport Separates*—A line of separates including slacks, skirts, blouses, sweaters and jackets.
- *Schrader Knit*—A line of one and two-piece knitted dresses and coats.
- *Mort Schrader Suit*—A selection of fashionable, executive style ladies' suits.
- *Schrader New Sport*—Casual coordinated sportswear for a younger, updated customer.
- *Miquette*—The company's newest division which offers contemporary designer dresses for day and evening.

This acquisition brings to INTERCO outstanding brand names serving markets not currently covered by the company's Apparel Group.

A TRIGÈRE COAT

SCHRADER SPORT SEPARATES

ABE SCHRADER

SCHRADER KNIT, SCHRADER SPORT DRESS, MORT SCHRADER SUIT

INTERCO Today

INTERCO is a broadly based major manufacturer and retailer of consumer products and services represented by four operating groups.

■ ***Apparel Manufacturing Group*** consists of 12 apparel companies operating 57 manufacturing plants and 13 major distribution centers across the country. The group designs, manufactures and distributes a full range of branded and private-label sportswear, casual apparel, dresses, suits, outer garments and headwear for men and women. Distribution is national in scope to department stores, specialty shops and other retail units. Substantial distribution, under private and branded labels, is also made to large national retail and discount chains.

■ ***General Retail Merchandising Group*** operates 551 retail locations in 23 states offering to the consumer a large assortment of products and services. General retailing includes junior department stores, discount stores, men's and women's specialty apparel shops, specialty department stores and large do-it-yourself home-improvement centers. Ten modern regional distribution centers support these retail locations.

■ ***Footwear Manufacturing and Retailing Group*** operates 863 retail shoe stores and leased shoe departments in 43 states in this country, as well as in Australia, Canada and Mexico. The group also styles, manufactures and distributes, primarily, men's footwear in most major price ranges in the United States, Canada and Australia. There are 16 shoe manufacturing plants and three major distribution centers in operation.

■ ***Furniture and Home Furnishings Group*** manufactures and distributes quality furniture and home furnishings. There are 44 factories and 12 major distribution centers and consolidation warehouses located throughout the United States. The company also owns and operates 18 Showcase Galleries and accessory stores.

Major Apparel Brands for Men:
Allyn St. George
Big Yank
Campus
Campusport
Clipper Mist
Cowden
Cowden Genes
Donegal
Fog
Field & Stream
I-Hat
John Alexander
Le Tigré
London Fog
London Towne
Maincoats
One University Place
Outdoors Unlimited
Rough Rider
Rugged Country
Startown
Tailor's Bench
Tour de France
Work-Mates by Big Yank

Major Apparel Brands for Women:
Abe Schrader
Clipper Mist
College-Town
Cowden
Cowden Genes
Devon
Fog
Gould Sport Club
It's Pure Gould
John Alexander
Lady Devon
Le Tigré
Le Tigré, Jr.
London Fog
London Towne
Maincoats
Miquette
Mort Schrader Suit
Outdoors Unlimited
Pant-her
The Petite Concept
Queen Casuals
REJOICE!
Schrader Knit
Schrader New Sport
Schrader Sport Dresses
Schrader Sport Separates
Smith & Jones
Smith & Jones For Her
Smith & Jones Petite
Stuffed Shirt
Tour de France
A Trigère Coat

Major Retail Trading Names:
Alberts
Albert K
Alcove
Benchley
Carithers
Central Hardware
Eagle Family Discount Stores
Fashion₵ents
Fine's
Golde's
Hirsch Value Center
Idaho Department Store
Jeans Galore
Keith O'Brien
Miller's
Sky City Discount Center
Standard Sportswear
Thornton's
United Shirt
Wigwam

Major Footwear Brands for Men:
Ambassador
Florsheim
Florsheim Designer Collection
Florsheim Imperial
Royal Imperial by Florsheim
Christian Dior
Idlers by Florsheim
Weeds from Florsheim
Grizzlies
Hy-Test
Julius Marlow
NCAA
Outdoorsman
Pro Action
Rand
Sea Tracs by London Fog
Winthrop
Worthmore

Major Footwear Brands For Women:
Crawdads
diVina
Florsheim
Marshmallows
Miss Wonderful
Personality
Sea Tracs by London Fog
Thayer McNeil

Major Retail Trading Names:
Florsheim Shoe Shops
Florsheim Thayer McNeil
Duane's
Miller Taylor
Phillips
Thompson, Boland & Lee

Major Furniture and Home Furnishings Brands:
Ethan Allen
Broyhill
Kling
Knob Creek
Restocrat
Lenoir House
Broyhill Premier

Major Retail Trading Names:
Carriage House
Georgetown
Georgetown Manor
Manor House
Broyhill Showcase Gallery

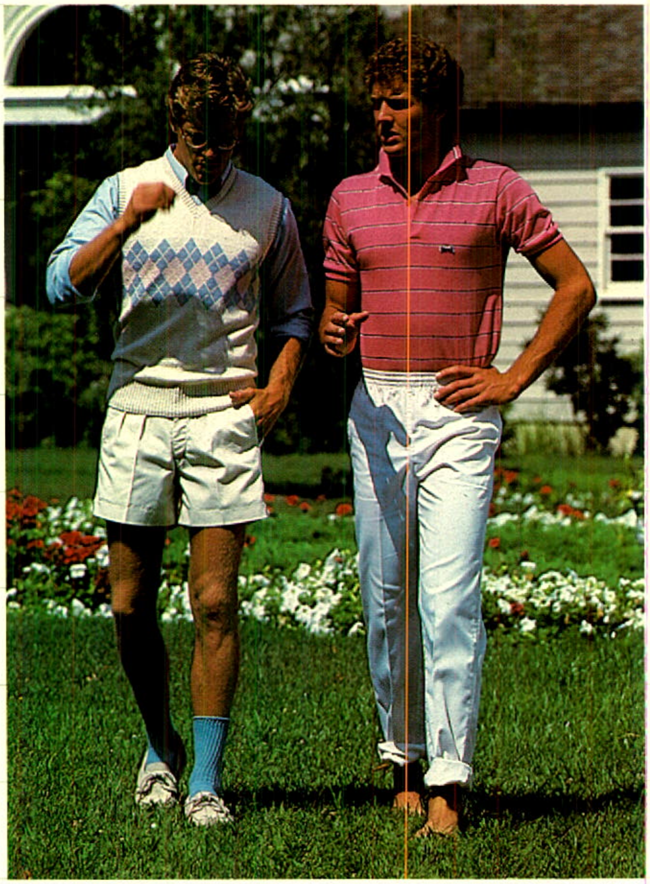
APPAREL MANUFACTURING GROUP

For fiscal 1984, the Apparel Manufacturing Group sales were $880.1 million, or 32.9% of consolidated sales, and operating earnings were $100.6 million, or 40.7% of the operating earnings of the company, for a return on sales of 11.4% before income taxes, corporate expenses and interest cost. This compares to prior year sales of $877.3 million and operating earnings of $94.8 million.

The past year was a challenging one for the Apparel industry. In the women's market, there was a shift in consumer preference from basic to fashion merchandise and to related separates as opposed to coordinates. Further, there developed a preference for fabrics that are woven rather than knitted, particularly in sportswear. In men's apparel, the move away from basic apparel toward more upscale, fashion clothing was also experienced. Rising imports continued to put increased competitive pressure on domestic apparel manufacturers. However, a shortage of import quotas, particularly in the Far East, required, in some cases, a return to domestic suppliers. Finally, a realignment of certain sportswear departments by major retailers has necessitated changes in the merchandising and marketing programs of certain apparel manufacturers.

The INTERCO apparel companies have adjusted to these fast-changing industry patterns and maintained their leadership position in the marketplace by initiating a number of steps. Our merchandising strategy has been redirected to update our product offerings from basic to more fashion-oriented merchandise and from coordinates to related separates and the now popular woven fabrics. Advertising programs have been expanded, particularly through the increased use of television, to reinforce consumer awareness of our nationally recognized brand names. Additionally, market research is being undertaken to determine the attitudes and characteristics of the markets we serve and to anticipate future market trends. We have continued our focus on manufacturing and distribution efficiency, utilizing the latest technology available. Where appropriate, domestic manufacturing has been supplemented with imported products to enhance our market position. Expanded product licensing by the INTERCO apparel companies affords another opportunity for growth.

The many positive steps being taken by the INTERCO apparel companies will allow them to maintain a leading position and increase their market share.



CAMPUS

Campus is a leading manufacturer of men's, young men's and boy's sportswear under the *Campus* and *LeTigré* labels, as well as, ladies' sportswear. The recently introduced *Allyn St. George* designer collection of sport shirts, knit shirts, slacks, active wear, sweaters and outerwear for men is expected to become an important part of Campus' future growth.

Biltwell manufactures men's slacks, sport coats and suits featuring two important brands, *John Alexander* and *Tailor's Bench.* Biltwell has recently become a licensee to manufacture and market sport coats, slacks and related accessories under the *Field & Stream* label for distribution to sporting goods retailers.

COLLEGE-TOWN

SIDNEY GOULD

BILTWELL

Sidney Gould is a designer, manufacturer and distributor of quality sweaters and knit tops for the missy market under the *It's Pure Gould* label and coordinated separates for the active sportswear market with the *Gould Sports Club* label. Sidney Gould's products were supplemented by the addition of a collection of imported hand-knitted sweaters.

College-Town is a major designer, manufacturer and distributor of moderate price women's sportswear. The junior market is served by the *College-Town* label, the contemporary missy market by the *Pant-her* brand and the large size division features the *REJOICE* label. New fashion styles were introduced this past year reflecting a more natural look.

PANT-HER

APPAREL MANUFACTURING GROUP

BIG YANK

LONDONTOWN

QUEEN CASUALS

Big Yank is a major manufacturer of casual slacks, work clothes, and jeans for the entire family with its principal brands being *Big Yank* and *Tour de France*. The company has embarked upon an aggressive licensing program and several agreements have been signed.

Queen Casuals manufactures popular-priced missy and women's sportswear. This company established a new division, *Smith & Jones*, specializing in the manufacture of moderately priced updated career sportswear in desired woven fabrications. *Smith & Jones* is receiving excellent market acceptance.

Londontown is a major manufacturer of rainwear and outerwear for men and women. A national advertising campaign reinforced the well known quality and durability attributes of the *London Fog* products, overlaid with a fashion styling message. Londontown recently introduced the *London Towne* label to add new channels of distribution.

DEVON

COWDEN

STUFFED SHIRT

INTERNATIONAL HAT

Stuffed Shirt manufactures and distributes junior and misses' shirts and jeans. Emphasizing the latest fabrics and colors, Stuffed Shirt has introduced a complete new group of related separates, targeting their product offerings at a wider market segment.

Devon manufactures popular-priced missy and women's sportswear under the *Devon, Lady Devon* and *The Petite Concept* labels. This year Devon adapted its product lines to the latest market trend toward updated fashion, with emphasis on woven materials.

International Hat manufactures cloth hats, caps, visors, sport caps, straw and cloth western style hats and knitted headwear. Responding to a resurgence in demand for ladies' headwear, they have added a new line of ladies' fashion hats, some reflecting the men's wear influence.

Cowden manufactures a complete assortment of men's, boys' and women's jeans, as well as, leisure clothing. In its first full year, the Cowden branded line was purchased by more than 1,200 accounts. During the year, Cowden established a centralized cutting facility, utilizing high technology automated equipment to replace less efficient cutting operations at each of its plants.

GENERAL RETAIL MERCHANDISING GROUP

For fiscal 1984, the General Retail Merchandising Group sales were $693.9 million, or 25.9% of consolidated sales, and operating earnings were $29.0 million, or 11.7% of the operating earnings of the company, for a return on sales of 4.2% before income taxes, corporate expenses and interest cost. This compares to prior year sales of $685.7 million and operating earnings of $22.4 million.

There are significant changes taking place today throughout the Retail industry, including those sectors in which the INTERCO companies operate. Traditional discount operations, as well as the full-service retailers, are facing ever-increasing competition from new and expanding off-price retailers, factory outlets, and the newest innovation, factory outlet malls. The industry is likewise experiencing a significant expansion of catalogue merchandising, which is influencing consumer shopping habits.

With the sharp escalation in rental rates and occupancy costs, retailers have been compelled to improve sales per square foot in order to achieve profit goals while, at the same time continuing the traditional level of service associated with the store or chain of stores. This has required the use of improved merchandising techniques and store redesign to increase customer traffic with the same or less overall space.

The Retail Group has met these challenges in a number of ways. Central Hardware has incorporated a new merchandising concept which makes more goods visible and accessible on the sales floor by eliminating stockrooms and converting the entire store into active selling space. This new merchandising concept will be implemented for all existing locations as part of a store remodeling program initiated in fiscal 1984, and will be incorporated in the design and construction of all new stores.

All of the INTERCO retailing companies have continued a program of relocating or closing marginal stores, remodeling existing locations to increase sales performance, and opening new stores in promising growth areas. Also, recent capital expenditures have been made to improve significantly the day-to-day management information systems utilized by our retailing companies.

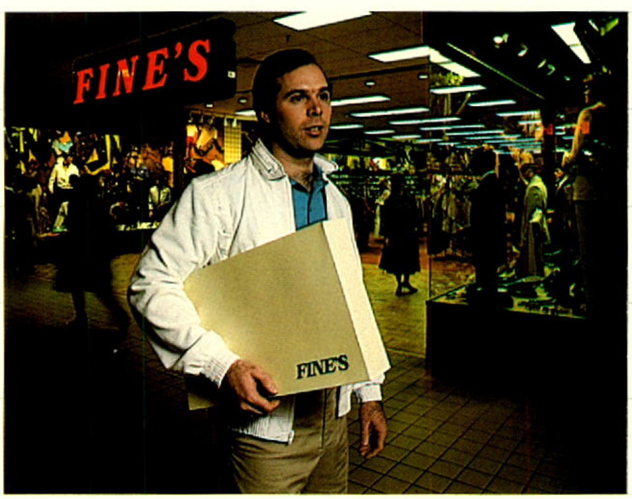
As part of a continuing program, certain of our retailing companies have conducted studies to update the profile of their customers. These studies assist in refining their merchandising programs to serve their clientele better by offering a more precise selection of desired products. This should result in higher sales per square foot and faster inventory turnover.

While the retail environment is undergoing a series of rapid changes, the INTERCO companies are positioned to respond quickly because of our decentralized management style. The operating results of this group have shown improvement as fiscal 1984 progressed. With the programs planned or underway and with continued favorable economic conditions, we expect further progress in the coming year.

EAGLE

Eagle Family Discount Stores operates 210 self-service units, principally in Florida. During the year the company remodeled a number of its stores. It is anticipated that the remodeling program, together with an upgrading in merchandise mix, will result in increased customer traffic and volume.

GOLDE'S



SKY CITY

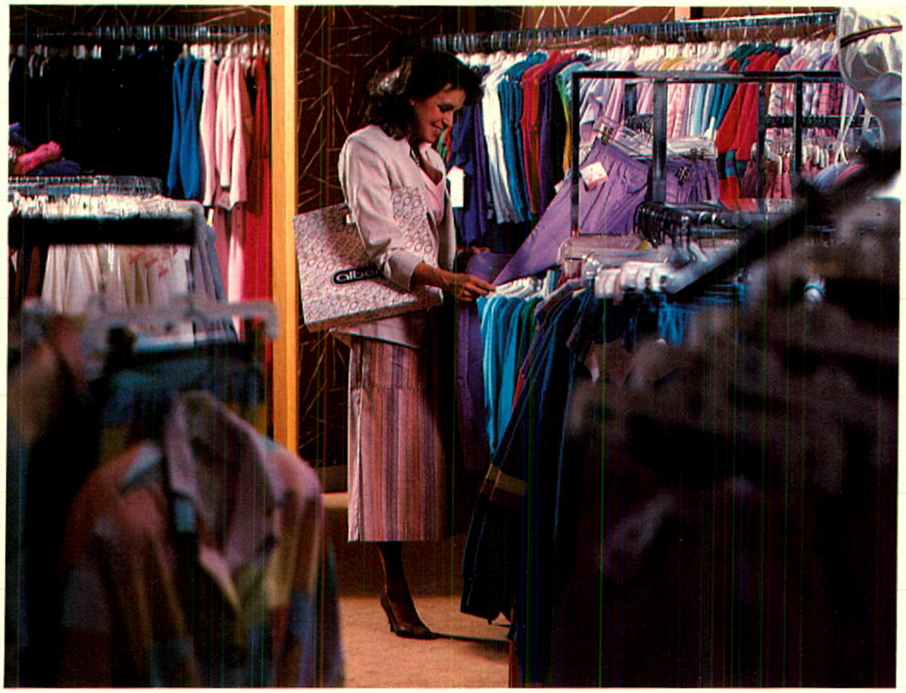
FINE'S

Golde's operates ten specialty department stores in Missouri and Illinois. The company is implementing an improved management information system which will allow it to better monitor the desires and requirements of their customers, as well as anticipate changing fashion trends.

Fine's/United operate 88 men's specialty stores in Virginia, West Virginia, North Carolina, South Carolina, Pennsylvania, Tennessee, Ohio and Michigan. Fine's targets its merchandising efforts to the fashion-conscious young man.

Sky City Discount Stores operates 72 large convenience stores in the Southeast. In fiscal 1984, the company introduced an innovative MADE IN THE SOUTH merchandising program emphasizing locally manufactured products. The customer response to this program was excellent.

GENERAL RETAIL MERCHANDISING GROUP



ALBERTS

UNITED SHIRT

Alberts operates 64 women's specialty stores in principal midwest markets, under the names: *Alberts, Albert K, Alcove* and *Fashion₵ents.* A new merchandising program known as PDQ, used in connection with recognizable brand names and Alberts private-label merchandise, signifies…priced for value; desirable fashions; quality at its best.

CENTRAL HARDWARE

IDAHO DEPARTMENT STORES

Central Hardware operates 30 large home-improvement centers in six Midwestern states. Tradition for excellent service continues with the addition of planning centers offering customers expert assistance in their do-it-yourself building projects.

Idaho Department Stores operates 77 junior department stores mainly in the Northwestern part of the country, as well as Texas. During the year 278 of the company's stores, located principally in the midwest and the south, were sold and the company's name was changed from P. N. Hirsch & Co. to Idaho Department Stores.

FOOTWEAR MANUFACTURING AND RETAILING GROUP

For fiscal 1984, the Footwear Manufacturing and Retailing Group sales were $565.9 million, or 21.1% of the consolidated sales, and operating earnings were $58.5 million, or 23.7% of the operating earnings of the company, for a return on sales of 10.3% before income taxes, corporate expenses and interest cost. This compares to prior year sales of $546.0 million and operating earnings of $57.1 million.

FOOTWEAR MANUFACTURING

Florsheim continues a tradition of presenting product lines that offer quality and value while satisfying ever-changing consumer lifestyles. The trend toward more casual, light-weight footwear that began several years ago continues to grow. Further, the improvement in consumer spending patterns over the past several months has brought with it renewed interest in classic, investment footwear including *Florsheim Imperial and Royal Imperial* brands. Florsheim has developed an expanded advertising program including the use of radio and television emphasizing new styles and continued fashion leadership. This program is aimed at obtaining a larger share of the younger man's market, as well as reinforcing consumer acceptance of the company's more traditional lines.

The *Christian Dior* line for men representing top quality designer footwear continues to grow with expansion of distribution in finer quality men's specialty and department stores. *Sea Tracs by London Fog,* which represents quality, recreational footwear for men and women, is also showing good growth.

International Shoe Company's largest business segment, the *Hy-Test Safety Shoe* Division, has rebounded from the depressed levels associated with the recession. A new market in the fast growing, high-technology area has been identified. Highly sensitive electronic circuit chips can be damaged by static electricity buildup on the human body. To help solve this problem, *Hy-Test* has developed new electrostatic dissipating soles.

FOOTWEAR RETAILING

In a continuing effort to improve the image and quality of its retail operations, approximately 50 *Florsheim* stores were remodeled or relocated during the year. Florsheim's international operations in Canada, Mexico and Australia are experiencing recoveries from the recent recessions in those countries. Florsheim is implementing a new automated retail information system, designed not only to enhance Florsheim's ability to provide quality customer service, but also to increase operating efficiencies.

Senack continued a program of closing smaller, less profitable units while expanding operations with selected leading department stores that offer greater opportunities for growth.

The recent improvement in footwear sales is an encouraging sign as we enter the new fiscal year.

FLORSHEIM

Florsheim has been the hallmark for quality and value in footwear for over 90 years. It distributes its products through a vast network of independent dealers, specialty shops, department stores and company-owned stores located throughout the United States, as well as Australia, Canada and Mexico.

INTERNATIONAL SHOE

FLORSHEIM

SENACK

International Shoe Company is the leading manufacturer of quality safety shoes in the United States. The company also manufactures a broad line of men's and women's shoes for dress and casual wear which are distributed through selected dealers, department and chain stores.

Senack Shoes operates leased shoe departments in leading department and specialty stores throughout the country. Senack offers the finest branded footwear produced by domestic and overseas manufacturers to its customers.

FURNITURE AND HOME FURNISHINGS GROUP

For fiscal 1984, the Furniture and Home Furnishings Group sales were $539.0 million, or 20.1% of consolidated sales, and operating earnings were $59.2 million, or 23.9% of the operating earnings of the company, for a return on sales of 11.0% before income taxes, corporate expenses and interest cost. This compares to prior year sales of $457.6 million and operating earnings of $28.7 million.

The Furniture industry has rebounded sharply from the recessionary levels of the past few years, principally as a result of increased housing starts and the overall improvement in the economy. INTERCO's two companies, Ethan Allen and Broyhill, make INTERCO the largest furniture manufacturer in the world, and both achieved excellent results this past year.

An important industry development pioneered by Ethan Allen is the establishment of home delivery centers, strategically located near participating dealers. Through these centers, Ethan Allen has assumed responsibility for the physical distribution of its products directly to consumer homes. This revolutionary concept will enable its dealers to concentrate on assisting homeowners in creating a beautiful home environment with quality furniture and accessories. It will also relieve dealers of the responsibility of maintaining sizeable inventories and the customer will benefit from more prompt and professional delivery service. At the same time, the investment required by gallery owners will be substantially reduced. This will improve the return on investment for existing dealers, and will provide stronger financial incentives for prospective gallery owners.

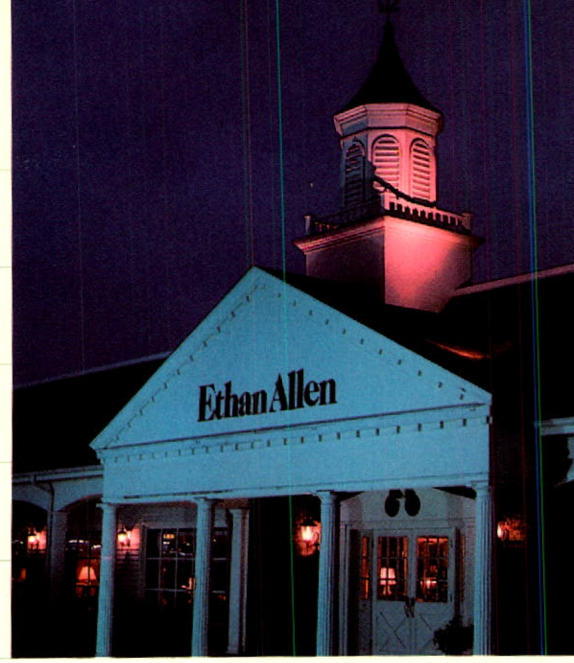
Broyhill continues implementation of its *Showcase Gallery* program within their dealer showrooms. Currently, Broyhill has more than 120 Galleries in operation and the number of Galleries is expected to grow substantially during the coming year. This program has provided an important new growth opportunity for Broyhill. Allied to development of the gallery program, Broyhill is expanding its *Premier* collection which retails at better price points. Sales of the *Premier* line represent an increasingly important part of Broyhill's volume.

Substantial capital expenditures have been made over the past year at both furniture companies with emphasis on new technologies for lumber drying and processing. These investments yield improved product quality at lower cost. In addition, continued expenditures for data communications equipment and computers reflect INTERCO's ongoing commitment to greater productivity and better customer service.

With consumer confidence high and new home sales continuing at a favorable rate, we would expect to see positive results by the Furniture and Home Furnishings Group during the coming year.

ETHAN ALLEN

BROYHILL



ETHAN ALLEN

BROYHILL

Ethan Allen manufactures a complete line of furniture and home furnishings which is distributed through more than 300 showcase galleries, most of which are dealer owned, in the United States and foreign countries. Ethan Allen manufactures furniture principally of American Traditional design which retails in the better price range.

Broyhill produces broad lines of bedroom, dining room and living room furniture in the medium price range. It has twenty manufacturing facilities with over six million square feet of floor space, and sells to more than ten thousand dealers.

The economic slowdown which persisted throughout fiscal 1983 remained a factor at the start of fiscal 1984. As the year progressed, signs of the recovery began to appear in the results of operations. For the year, net sales increased 4.4% while operating earnings, before income taxes, corporate expenses and interest cost, were 21.8% above the level of one year ago. Net earnings were 35.5% above last year's level.

The following summary depicts the sales and earnings of our four operating groups for the five-year period 1980-1984, in thousands of dollars. Fiscal 1981 has been restated for the retroactive restatement of accounting for compensated absences in accordance with Financial Accounting Standards Board Statement No. 43.

Years Ended	**1984**	1983	1982	1981	1980
Net sales:					
Apparel	**$ 880,122**	$ 877,341	$ 899,161	$ 850,970	$ 818,380
General Retail	**693,914**	685,664	672,137	645,940	630,309
Footwear	**565,891**	546,041	587,035	558,291	554,955
Furniture	**538,959**	457,560	515,436	313,255	20,663
Total	**$2,678,886**	$2,566,606	$2,673,769	$2,368,456	$2,024,307
Earnings before income taxes:					
Apparel	**$ 100,538**	$ 94,843	$ 104,824	$ 109,413	$ 105,873
General Retail	**28,951**	22,346	22,832	27,135	41,149
Footwear	**58,531**	57,114	78,381	83,600	65,435
Furniture	**59,231**	28,653	55,279	39,857	3,101
Operating earnings	**247,251**	202,956	261,316	260,005	215,558
Less corporate expenses and interest cost	**26,230**	37,080	38,046	27,984	9,823
Total	**221,021**	165,876	223,270	232,021	205,735
Income taxes	**104,827**	80,114	104,655	110,818	99,029
Net earnings	**$ 116,194**	$ 85,762	$ 118,615	$ 121,203	$ 106,706
As a percent of sales	**4.3%**	3.3%	4.4%	5.1%	5.3%

NOTE: For fiscal 1980, the Furniture Group contains the operating results of *Ethan Allen* for the month of February 1980. For fiscal 1981, the Furniture Group includes operating results for a full year of *Ethan Allen* and for three months of *Broyhill.*

Net Sales

The net sales contribution for each operating group of the company is compared, in millions of dollars, as follows:

	Fiscal 1984		Fiscal 1983		Fiscal 1982	
	Amount	**%**	Amount	%	Amount	%
Apparel	**$ 880.1**	**32.9**	$ 877.3	34.2	$ 899.2	33.6
General Retail	**693.9**	**25.9**	685.7	26.7	672.2	25.1
Footwear	**565.9**	**21.1**	546.0	21.3	587.0	22.0
Furniture	**539.0**	**20.1**	457.6	17.8	515.4	19.3
	$2,678.9	**100.0**	$2,566.6	100.0	$2,673.8	100.0

The net sales of the company, by quarter, in millions of dollars, were:

	Fiscal 1984	Fiscal 1983	Fiscal 1982
First quarter	**$ 617.5**	$ 609.3	$ 639.4
Second quarter	**694.9**	665.5	713.7
Third quarter	**742.5**	688.5	717.0
Fourth quarter	**624.0**	603.3	603.7
	$2,678.9	$2,566.6	$2,673.8

Earnings

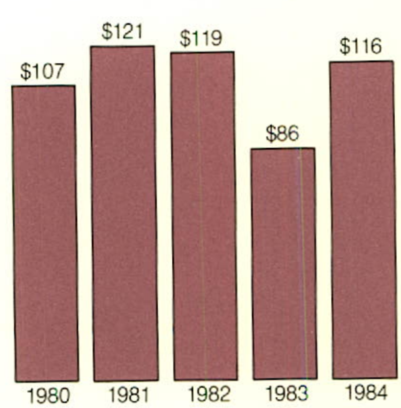
Operating earnings, before income taxes, corporate expenses and interest cost, for each operating group are compared, in millions of dollars, as follows:

	Fiscal 1984		Fiscal 1983		Fiscal 1982	
	Amount	**%**	Amount	%	Amount	%
Apparel	**$100.6**	**40.7**	$ 94.8	46.7	$104.8	40.1
General Retail	**29.0**	**11.7**	22.4	11.0	22.8	8.7
Footwear	**58.5**	**23.7**	57.1	28.2	78.4	30.0
Furniture	**59.2**	**23.9**	28.7	14.1	55.3	21.2
	$247.3	**100.0**	$203.0	100.0	$261.3	100.0

In fiscal 1984, our margin of profitability, operating earnings to sales, was 11.4% for the Apparel Group, 4.2% for the General Retail Group, 10.3% for the Footwear Group, and 11.0% for the Furniture Group.

Net Sales
(In Millions)

Net Earnings
(In Millions)



Earnings before income taxes were $221.0 million, an increase of $55.1 million, or 33.2% from last year. The increase in earnings in fiscal 1984 reflects the effects of cost curtailment programs, the reduced level of interest expense, and increased interest income.

Net earnings for the year were $116.2 million, up $30.4 million, or 35.5% from the net earnings of $85.8 million for the previous year.

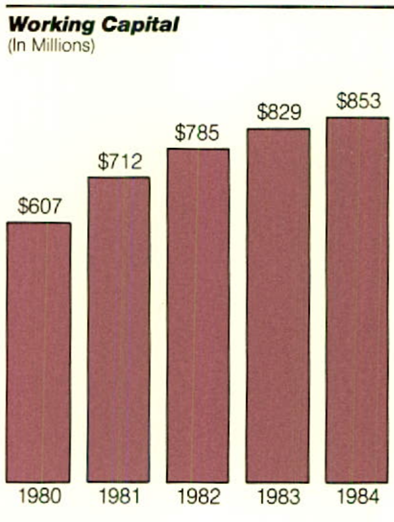
Earnings per share were $7.02, an increase of 34.5% from the $5.22 in fiscal 1983.

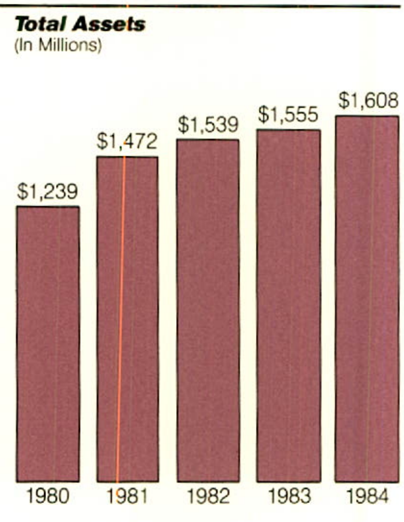
Net earnings and earnings per share for each quarter are compared, as follows:

	Net Earnings (In Millions)			Earnings Per Share		
	Fiscal 1984	Fiscal 1983	Fiscal 1982	**Fiscal 1984**	Fiscal 1983	Fiscal 1982
First quarter	**$ 17.3**	$16.2	$ 25.4	**$1.04**	$0.98	$1.55
Second quarter	**27.6**	19.9	32.3	**1.67**	1.22	1.97
Third quarter	**35.5**	25.1	31.2	**2.15**	1.54	1.90
Fourth quarter	**35.8**	24.6	29.7	**2.16**	1.48	1.81
	$116.2	$85.8	$118.6	**$7.02**	$5.22	$7.23

Capital Expenditures

Capital expenditures of $51.1 million, which included $3.4 million of capital leases, were made during fiscal 1984 for new manufacturing plants and distribution centers, the modernization of manufacturing plants and equipment, the expansion of existing distribution facilities, new retail outlets, and the refurbishment and modernization of a number of retail locations. Depreciation expense for the year was $42.5 million.





Financial Position

The company's financial position continues to be strong.

- Working capital, the excess of current assets over current liabilities, was $852.8 million at the end of fiscal 1984. The current ratio was 4.2 to 1 at February 29, 1984 compared to 4.5 to 1 a year ago.

- Cash and marketable securities were $126.6 million, an increase of $11.1 million at year end, after providing for capital expenditures, dividends and the repurchase of a portion of the company's 14¼% and 4⅝% promissory notes.

- Accounts receivable were $329.1 million at February 29, 1984, an increase of 13.0% from the prior year. The increase was due to an increased level of sales in the manufacturing segments and short-term notes receivable which were covered by letters of credit.

- Inventories were $641.2 million at year end, a reduction of $1.1 million from the prior year.

- Total assets were $1.61 billion, compared to $1.55 billion a year earlier.

- Long-term debt, including capitalized leases of $69.0 million, was $208.9 million at year end. The debt-to-capitalization ratio was 15.9%, an improvement from 20.7% at February 28, 1983.

- Shareholders' equity was $1.10 billion at February 29, 1984. The return on shareholders' average investment was 11.0%. Book value per common share increased to $68.82 from $64.64 one year ago.

Dividends

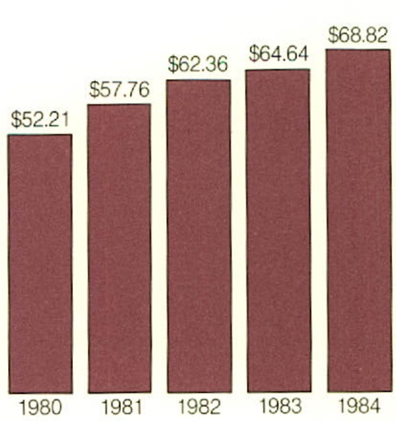
Fiscal 1984 was the 73rd consecutive year of cash dividend payments. Cash dividends of $48.6 million were paid during the fiscal year, with $41.9 million to holders of common stock and the remainder to holders of preferred stock.

Quarterly common stock cash dividends per share were paid, as follows:

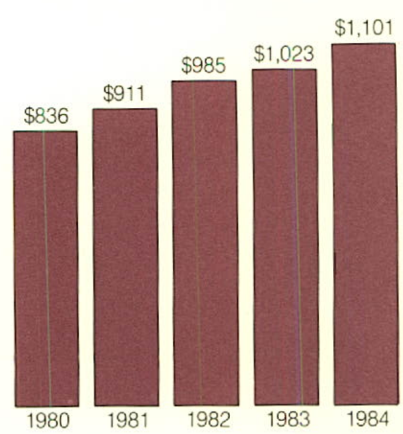
	Fiscal 1984	Fiscal 1983	Fiscal 1982
First quarter	**$0.72**	$0.72	$0.72
Second quarter	**0.72**	0.72	0.72
Third quarter	**0.72**	0.72	0.72
Fourth quarter	**0.72**	0.72	0.72
	$2.88	$2.88	$2.88

The annual dividend rate on the Series D preferred stock is $7.75 per share.

Book Value Per Common Share



Total Shareholders' Equity
(In Millions)



Capital Stock

On February 29, 1984, there were 14,832,859 shares of common stock and 802,085 shares of preferred stock outstanding.

The Board has authorized the repurchase of 1,000,000 common shares. Through February 29, 1984, the company repurchased 687,465 shares on the open market or by private transaction at a cost of $26.7 million. During the year, 100,000 shares of treasury stock, plus cash, were reissued for $15.9 million of the 4⅝% promissory notes. The average price of treasury shares was $38.77 per share.

The common and preferred shares of INTERCO are traded on the New York Stock Exchange. Fluctuation in the high and low quoted prices, for each quarter, are shown in the following:

	Fiscal 1984		Fiscal 1983		Fiscal 1982	
	Common		Common		Common	
	High	**Low**	High	Low	High	Low
First quarter	**$ 75¼**	**$ 63¼**	$ 46	$ 41	$ 54¾	$ 48¾
Second quarter	**85**	**64¾**	43¾	35½	57¼	51
Third quarter	**72½**	**64**	59⅛	42½	53¾	45½
Fourth quarter	**70**	**58½**	64½	58	50	39½
	Preferred		Preferred		Preferred	
	High	**Low**	High	Low	High	Low
First quarter	**$162¾**	**$137½**	$ 99½	$ 90	$117	$106
Second quarter	**183**	**142**	93½	78½	123	112½
Third quarter	**154¼**	**140**	127½	91	115	100
Fourth quarter	**151¼**	**128½**	138¾	126	106	90½

The closing market price of INTERCO's common and preferred stock at fiscal year end 1984 was $59⅛ and $128½ per share, respectively.

Trademarks and Trade Names

The trademarks, trade names and licensed trademarks of INTERCO and its subsidiaries, appearing in this Annual Report, are italicized.

Form 10-K Annual Report

A copy of INTERCO INCORPORATED's current Form 10-K filed with the Securities and Exchange Commission can be obtained by writing to: Treasurer, INTERCO INCORPORATED, Post Office Box 8777, St. Louis, Missouri 63102.

INTERCO Consolidated Financial Statements

Contents

Consolidated Balance Sheet
(Dollars in thousands)

Assets	**February 29, 1984**	February 28, 1983	February 28, 1982
Current assets:			
Cash	**$ 11,996**	$ 14,801	$ 9,812
Marketable securities	**114,603**	100,744	17,198
Receivables, less allowances of $15,318 ($15,374 and $14,708 in 1983 and 1982)	**329,054**	291,130	302,877
Inventories	**641,235**	642,314	694,184
Prepaid expenses and other current assets	**22,654**	18,061	19,537
Total current assets	**1,119,542**	1,067,050	1,043,608
Marketable investment securities	**10,297**	11,199	14,432
Property, plant and equipment:			
Land	**25,075**	25,710	25,308
Buildings and improvements	**376,829**	368,121	358,587
Machinery and equipment	**257,039**	254,543	243,635
	658,943	648,374	627,530
Less accumulated depreciation	**250,578**	238,401	210,423
Net property, plant and equipment	**408,365**	409,973	417,107
Other assets	**69,628**	66,753	63,803
	$1,607,832	$1,554,975	$1,538,950

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	February 29, 1984	February 28, 1983	February 28, 1982
Current liabilities:			
Current maturities of long-term debt	**$ 13,622**	$ 14,529	$ 14,053
Current maturities of capital lease obligations	**6,047**	5,953	5,952
Accounts payable	**156,227**	130,923	151,639
Accrued employee compensation	**39,249**	36,983	35,583
Other accrued expenses	**34,001**	31,810	33,842
Income taxes	**17,549**	18,010	17,211
Total current liabilities	**266,695**	238,208	258,280
Long-term debt, less current maturities	**139,914**	193,341	198,054
Obligations under capital leases, less current maturities	**69,002**	73,785	76,820
Other long-term liabilities	**31,258**	26,410	20,724
Shareholders' equity:			
Preferred stock, no par value, authorized 10,000,000 shares—issued 802,085 shares in 1984, 908,136 shares in 1983 and 995,722 shares in 1982	**80,209**	90,814	99,572
Common stock, $7.50 stated value, authorized 50,000,000 shares—issued 15,420,324 shares in 1984, 15,113,074 shares in 1983 and 14,771,941 shares in 1982	**115,652**	113,348	110,789
Capital surplus	**84,242**	66,885	54,512
Retained earnings	**843,635**	778,866	742,356
	1,123,738	1,049,913	1,007,229
Less 587,465 (687,465 and 571,665 in 1983 and 1982, respectively) shares of common stock in treasury, at cost	**22,775**	26,682	22,157
Total shareholders' equity	**1,100,963**	1,023,231	985,072
	$1,607,832	$1,554,975	$1,538,950

Consolidated Statement of Earnings

(Dollars in thousands except per share data)

Years Ended	**February 29, 1984**	February 28, 1983	February 28, 1982
Income:			
Net sales	**$2,678,886**	$2,566,606	$2,673,769
Other income, net	**44,495**	29,779	28,801
	2,723,381	2,596,385	2,702,570
Costs and expenses:			
Cost of sales	**1,820,366**	1,759,527	1,820,369
Selling, general and administrative expenses	**650,332**	635,910	621,730
Interest expense	**31,662**	35,072	37,201
	2,502,360	2,430,509	2,479,300
Earnings before income taxes	**221,021**	165,876	223,270
Income taxes	**104,827**	80,114	104,655
Net earnings	**$ 116,194**	$ 85,762	$ 118,615
Earnings per share	**$7.02**	$5.22	$7.23

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position
(Dollars in thousands)

Years Ended	**February 29, 1984**	February 28, 1983	February 28, 1982
Working capital provided by:			
Net earnings	**$116,194**	$ 85,762	$118,615
Items not affecting working capital:			
Depreciation	**42,524**	41,469	39,400
Other, net	**10,509**	9,665	5,969
Operations	**169,227**	136,896	163,984
Disposal of property, plant and equipment	**10,400**	4,991	7,438
Issuance of preferred stock	**29**	231	396
Issuance of common stock	**20,665**	14,943	7,995
Additions to long-term debt	**5,100**	10,750	25,880
Additions to capital lease obligations	**3,431**	3,965	3,920
Reduction of marketable investment securities	**1,047**	3,613	500
	209,899	175,389	210,113
Working capital used for:			
Cash dividends	**48,631**	48,496	48,492
Additions to property, plant and equipment:			
Company owned property	**47,627**	36,144	48,353
Capitalized leased property	**3,431**	3,966	3,940
Reduction of long-term debt	**58,687**	14,906	15,273
Reduction of capital lease obligations	**8,214**	7,000	6,500
Purchase of common treasury shares	**—**	4,525	—
Conversion of preferred stock	**10,638**	9,000	2,308
Other, net	**8,666**	7,838	11,470
	185,894	131,875	136,336
Increase in working capital	**$ 24,005**	$ 43,514	$ 73,777
Working capital increased (decreased) by:			
Cash and marketable securities	**$ 11,054**	$ 88,535	$ 8,857
Receivables	**37,924**	(11,747)	(5,174)
Inventories	**(1,079)**	(51,870)	60,670
Prepaid expenses and other current assets	**4,593**	(1,476)	(4,330)
Current maturities of long-term debt	**907**	(476)	(1,095)
Current maturities of capital lease obligations	**(94)**	(1)	(107)
Accounts payable and accrued expenses	**(29,761)**	21,348	6,959
Income taxes	**461**	(799)	7,997
	$ 24,005	$ 43,514	$ 73,777

See accompanying notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

(Dollars in thousands except per share data)

	Preferred Stock	Common Stock Issued	Common Stock Treasury	Capital Surplus	Retained Earnings	Total
Balance February 28, 1981	$101,440	$109,389	$(22,157)	$47,961	$674,240	$ 910,873
Net earnings					118,615	118,615
Cash dividends:						
Preferred stock					(7,809)	(7,809)
Common stock—$2.88 per share					(40,683)	(40,683)
Issuance of 4,402 preferred shares for conversion of debentures	440			(44)		396
Conversion of preferred stock Series D—23,079 shares	(2,308)	374		1,933		(1)
Exercise of stock options common—79,930 shares		600		2,497		3,097
Restricted stock plan common—1,320 shares		10		58		68
Issuance of 55,556 contingent common shares		416		2,107		2,523
Investment valuation allowance					507	507
Foreign currency translations					(2,514)	(2,514)
Balance February 28, 1982	99,572	110,789	(22,157)	54,512	742,356	985,072
Net earnings					85,762	85,762
Cash dividends:						
Preferred stock					(7,478)	(7,478)
Common stock—$2.88 per share					(41,018)	(41,018)
Issuance of 2,419 preferred shares for conversion of debentures	242			(11)		231
Conversion of preferred stock Series D—90,005 shares	(9,000)	1,460		7,540		—
Exercise of stock options common—146,549 shares		1,099		4,844		5,943
Purchase of 115,800 common treasury shares			(4,525)			(4,525)
Investment valuation allowance					247	247
Foreign currency translations					(1,003)	(1,003)
Balance February 28, 1983	90,814	113,348	(26,682)	66,885	778,866	1,023,231
Net earnings					116,194	116,194
Cash dividends:						
Preferred stock					(6,701)	(6,701)
Common stock—$2.88 per share					(41,930)	(41,930)
Issuance of 329 preferred shares for conversion of debentures	33			(4)		29
Conversion of preferred stock Series D—106,380 shares	(10,638)	1,725		8,911		(2)
Exercise of stock options common—77,142 shares		578		3,174		3,752
Restricted stock plan common—133 shares		1		7		8
Issuance of 100,000 common treasury shares in exchange for notes			3,907	5,269	(2,907)	6,269
Foreign currency translations					113	113
Balance February 29, 1984	$ 80,209	$115,652	$(22,775)	$84,242	$843,635	$1,100,963

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)

1. Significant Accounting Policies

The company and its subsidiaries follow generally accepted accounting principles to present fairly their consolidated financial position, results of operations, and changes in financial position. The major accounting policies of the company are set forth below.

Principles of Consolidation—The consolidated financial statements include the accounts of the company and all domestic and foreign subsidiaries, the majority of which are wholly owned. All material intercompany transactions have been eliminated in consolidation.

Fiscal Year—The company's fiscal year ends on the last day of February. In this report, reference to fiscal 1984 refers to the fiscal year ended February 29, 1984, fiscal 1983 refers to the fiscal year ended February 28, 1983, and fiscal 1982 refers to the fiscal year ended February 28, 1982.

Marketable Securities—Marketable securities are stated at cost which approximates market.

Inventories—Inventories are stated at the lower of cost (first-in, first-out) or market, except for most footwear manufacturing and certain general retail inventories which are valued on the "last-in, first-out" method of inventory valuation.

Marketable Investment Securities—Marketable investment securities consist of bonds and common and preferred stocks held for long-term investment. Dividend and interest income are accrued as earned. The cost of marketable investment securities sold is determined on the specific identification method.

Marketable equity securities (common and preferred stocks) are carried at the lower of cost or market. A valuation allowance, representing the excess of cost over market of these equity securities, is included in shareholders' equity, when applicable. Other marketable investment securities (bonds) are carried at cost as there is no indication of a permanent impairment in value in any portion of the portfolio and there is no intention to liquidate the securities portfolio at less than cost.

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Facilities and equipment leased under capital leases are included in property, plant and equipment with the corresponding principal payments carried in obligations under capital leases. Expenditures for improvements are capitalized, while normal repairs and maintenance are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and gains or losses on the dispositions are reflected in operations.

Depreciation—For financial reporting purposes, the company utilizes both accelerated and straight-line methods of computing depreciation. Amortization of assets recorded under capital leases is included in depreciation expense. Depreciation expense is computed based on the estimated useful lives of the respective assets which generally range from 15 to 40 years for buildings and improvements, and from 3 to 20 years for machinery and equipment. Approximately 82%, 82% and 84% of depreciation expense was computed on the straight-line method in fiscal 1984, 1983 and 1982, respectively.

(Dollars in thousands except per share data)

Excess of Cost Over Fair Value of Net Assets Acquired—The excess of cost over fair value of net assets of companies acquired is included in other assets and is being amortized on a straight-line basis, generally over 40 years.

Start-Up Expenses—Start-up expenses of new facilities are charged to operations in the fiscal year incurred.

Pension Plans—The company's policy with respect to pension plans is to fund pension costs accrued, and to amortize prior service costs, generally over 30 years.

Income Taxes—Investment tax credits are reflected as a reduction of Federal income taxes in the period in which qualified property is placed in service. It is the company's intent that the undistributed earnings of subsidiaries will either be reinvested in the subsidiaries or distributed tax-free to the parent company. Generally, no provision has been made for income taxes on such undistributed earnings.

2. Inventories

Inventories are summarized as follows:

	1984	1983	1982
Retail merchandise	**$256,746**	$288,165	$298,009
Finished products	**191,715**	178,487	193,686
Work in process	**57,610**	55,625	60,455
Raw materials	**135,164**	120,037	142,034
	$641,235	$642,314	$694,184

All of the major categories of inventory include certain items priced on the "last-in, first-out" method. Had the "first-in, first-out" method been applied to all inventories, they would have been stated at approximately $674,193, $674,484 and $726,249 at February 29, 1984 and February 28, 1983 and 1982, respectively.

3. Marketable Investment Securities

Marketable investment securities consisted of the following:

	1984	1983	1982
Marketable equity securities, at cost	**$ 1,926**	$ 2,973	$ 3,586
Less valuation allowance	**–**	–	247
Marketable equity securities, at market	**1,926**	2,973	3,339
Bonds, at cost	**8,371**	8,226	11,093
	$10,297	$11,199	$14,432

The portfolio of marketable equity securities included gross unrealized gains of $2,296 and unrealized losses of $370 at February 29, 1984. Net realized gains on the sale of securities, after applicable taxes, included in the determination of net earnings amounted to $2,309 and $63 for fiscal 1984 and 1983, respectively. There were no realized gains or losses in fiscal 1982.

4. Lines of Credit

During fiscal 1984, the company's financial position was sufficient to cover seasonal cash flow changes and, as a result, no domestic short-term borrowings were necessary under existing lines of credit. Average short-term borrowings outstanding during fiscal 1983 and 1982 were $25,000 and $39,000, with a weighted average interest rate thereon of 11.6% and 16.5%, respectively. Maximum short-term borrowings at any month-end were $52,300 and $64,500 in fiscal 1983 and 1982, respectively.

On March 1, 1983, the company amended its credit agreement enabling it to borrow up to $100,000 in domestic or Euro-Dollar loans through February 28, 1987. Borrowings outstanding as of February 28, 1987 are repayable from that date through February 28, 1991. Domestic interest rates will approximate bank prime while rates for Euro-Dollar borrowings will approximate the London Inter-Bank Offering Rate plus 0.375%. The amended agreement requires the company to pay a commitment fee of 0.25% per annum. There were no borrowings outstanding under the amended agreement or prior agreements at February 29, 1984, February 28, 1983 or 1982.

The company also maintains other bank lines of credit which provide added credit availability and support for the sale of commercial paper. On February 29, 1984, the total unused lines of credit under these agreements were $88,500.

5. Long-Term Debt

Long-term debt consisted of the following:

	1984	1983	1982
14¼% promissory notes due February 15, 1991	**$ 75,000**	$100,000	$100,000
10% promissory installment notes, payable $8,716 annually through 1985	**17,432**	26,148	34,864
4⅝% promissory installment notes, payable $1,875 annually through 1987, and balance in 1988	**7,838**	25,625	27,500
8⅝% promissory installment note, payable $1,000 annually through 1993, and balance in 1994	**15,000**	16,000	17,000
7¾% to 12% industrial revenue bonds maturing in varying amounts through 2011	**29,726**	28,976	18,476
4⅞% convertible subordinated debentures due January 1, 1998	**259**	294	514
Other debt at 3% to 12% interest rates, payable in varying amounts through 2006	**10,497**	13,334	16,567
	155,752	210,377	214,921
Less current maturities	**13,622**	14,529	14,053
Less present value adjustment	**2,216**	2,507	2,814
	$139,914	$193,341	$198,054

Maturities of long-term debt are $13,622, $15,412, $5,137, $6,319 and $1,984 for fiscal years 1985 through 1989, respectively.

The present value adjustment relates to purchase adjustments of the long-term debt assumed in the acquisition of Ethan Allen, Inc.

The 4⅞% convertible subordinated debentures are convertible into the company's Series D preferred stock prior to maturity at $105.50 per share, subject to anti-dilution provisions. They are subordinated as to principal and interest to all senior indebtedness, are redeemable at the company's option prior to maturity at prices ranging from 102.125% to 100% of the principal amount, and are subject to annual sinking fund payments.

(Dollars in thousands except per share data)

In fiscal 1984, the company exchanged 100,000 shares of its common stock plus $5,586 in cash for 66.7% of its 4⅝% promissory notes outstanding with a face value of $15,912. Also, the company repurchased $25,000 of its 14¼% promissory notes at a premium of 8.714%. The combined effect of these transactions did not have a material effect on consolidated net earnings.

The company is in compliance with the covenants of its debt agreements and does not believe that the covenants will restrict its future operations.

6. Obligations Under Capital Leases

The amount capitalized under capital leases is the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Generally, interest rates applicable to capital leases range between 4¾% and 16¾% for leased facilities and between 14% and 21½% for leased equipment. Obligations under capital leases amounted to $75,049 at February 29, 1984, and $79,738 and $82,772 at February 28, 1983 and 1982, respectively. Maturities of these obligations are $6,047, $5,889, $5,701, $5,578 and $5,631 for fiscal years 1985 through 1989, respectively.

7. Preferred Stock

The company's preferred stock is issuable in series. At February 29, 1984 and February 28, 1983 and 1982, the outstanding preferred stock consisted of 802,085, 908,136 and 995,722 shares, respectively, of Series D $7.75 cumulative convertible with stated and involuntary liquidating value of $100.00 per share.

Each share of the Series D preferred stock is convertible into 2.1621 shares of the company's common stock. The Series D preferred stock may be redeemed at the company's option on or after January 29, 1989, at $104.75 per share, decreasing to $100.00 per share in 1994. Subject to the satisfaction of certain conditions relating to common stock dividends paid, the Series D preferred stock may be redeemed at the company's option on or after January 29, 1986 at $107.75 per share, decreasing to $100.00 per share in 1994.

At February 29, 1984, 2,454 shares of Series D preferred stock were reserved for the conversion of the 4⅞% convertible subordinated debentures.

8. Common Stock

Shares of common stock were reserved for the following purposes at February 29, 1984:

	Number of Shares
Common stock options:	
Granted	331,924
Available for grant	260,888
Conversion of preferred stock	1,739,493
	2,332,305

Under the company's stock option plans, certain key employees may be granted incentive options, nonqualified options, stock appreciation rights, or combinations thereof. Nonqualified options and stock appreciation rights granted under the 1977 Plan may not be less than 85% of the fair market value (100% as to incentive options and related stock appreciation rights) of the common stock on the date of grant. Options and stock appreciation rights granted under the 1980 Plan may not be less than 100% of the fair market value of the common stock on the date of grant. All options which have been granted, incentive or nonqualified, were at 100% of fair market value on the date of grant. Incentive options and nonqualified options expire ten years after the date of grant. At February 29, 1984, no stock appreciation rights have been granted. No additional options may be granted under the 1972 Plan.

At February 29, 1984, information regarding options granted but not exercised under the three plans was as follows:

	Option Shares Outstanding	Dates of Grant	Price Range
1972 Plan	14,883	September 5, 1974 —October 15, 1981	$20.50 -$48.00
1977 Plan	76,452	November 17, 1978 —February 15, 1984	$35.00 -$73.50
1980 Plan	240,589	December 19, 1980 —March 1, 1983	$37.125-$63.50

Changes in options granted are summarized as follows:

	1984		1983		1982	
	Shares	**Average Price**	Shares	Average Price	Shares	Average Price
Beginning of year	**418,069**	**$46.08**	522,393	$42.19	394,334	$35.49
Granted	**10,400**	**64.58**	61,300	51.74	237,550	49.79
Exercised	**(77,142)**	**40.37**	(146,549)	34.92	(79,930)	32.75
Cancelled	**(19,403)**	**47.20**	(19,075)	43.55	(29,561)	39.38
End of year	**331,924**	**47.92**	418,069	46.08	522,393	42.19
Exercisable at end of year	**101,117**		102,317		112,805	

9. Income Taxes

Income tax expense was comprised of the following:

	1984	1983	1982
Current:			
Federal	**$ 91,304**	$63,955	$ 83,335
State and local	**11,274**	9,505	11,765
Foreign	**1,205**	2,546	3,807
	103,783	76,006	98,907
Deferred	**1,044**	4,108	5,748
	$104,827	$80,114	$104,655
Investment and jobs tax credits	**$ 2,632**	$ 2,450	$ 3,079

The following table reconciles the differences between the Federal corporate statutory rate and the company's effective income tax rate:

	1984	1983	1982
Federal corporate statutory rate	**46.0%**	46.0%	46.0%
State and local income taxes, net of Federal tax benefit	**2.9**	3.0	2.9
Investment and jobs tax credits	**(1.2)**	(1.5)	(1.4)
Foreign taxes, including foreign currency translation effects	**(0.2)**	0.6	(0.2)
Other	**(0.1)**	0.2	(0.4)
Effective income tax rate	**47.4%**	48.3%	46.9%

(Dollars in thousands except per share data)

Certain items are recognized for income tax purposes in years other than those in which they are reported in the consolidated financial statements. Future income tax benefits and deferred credits at February 29, 1984 and February 28, 1983 and 1982 are included in the accompanying consolidated balance sheet, as follows:

	1984	1983	1982
Prepaid expenses and other current assets	**$ 10,236**	$ 6,694	$ 7,427
Other long-term liabilities	**(15,345)**	(10,759)	(7,384)
	$ (5,109)	$ (4,065)	$ 43

The Federal income tax returns of the company and its major subsidiaries have been examined through fiscal 1980.

10. Pension Plans

The company and its subsidiaries have several pension plans covering substantially all employees, including certain employees in foreign countries. Total pension expense was $19,400, $19,400 and $20,100 in fiscal 1984, 1983 and 1982, respectively. The company makes annual contributions to the plans equal to the amounts accrued for pension expense. Accumulated plan benefits and plan net assets for the company's defined benefit plans as of the most recent valuation dates are presented below:

	1984	1983	1982
Actuarial present value of accumulated plan benefits:			
Vested	**$133,232**	$128,908	$131,186
Nonvested	**10,609**	9,970	11,388
	$143,841	$138,878	$142,574
Net assets (at market value) available for benefits	**$135,536**	$112,307	$101,310

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.6%, 7.6% and 6.7% in fiscal 1984, 1983 and 1982, respectively.

11. Lease Commitments

Substantially all of the company's retail outlets and certain other real properties and equipment are operated under lease agreements expiring at various dates through the year 2022. Leases covering retail outlets and equipment generally require, in addition to stated minimums, contingent rentals based on retail sales and equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Assets recorded under capital leases were as follows:

	1984	1983	1982
Land	**$ 783**	$ 902	$ 1,047
Buildings	**90,072**	90,782	89,596
Machinery and equipment	**11,483**	11,949	11,812
	102,338	103,633	102,455
Accumulated depreciation	**40,127**	37,119	32,513
	$ 62,211	$ 66,514	$ 69,942

Future minimum lease payments under capital leases, reduced by minimum rentals from subleases of $720 at February 29, 1984, aggregate $133,872 of which $75,049 is included in obligations under capital leases and current maturities, $47,174 represents interest, and the balance represents other costs of the leases including taxes, insurance and maintenance. Annual payments under capital leases are $13,867, $13,114, $12,394, $11,612 and $11,101 for fiscal years 1985 through 1989, respectively.

Total rent expense was as follows:

	1984	1983	1982
Basic rentals under operating leases	**$42,925**	$42,379	$42,569
Contingent rentals, operating and capital leases	**31,186**	30,105	28,882
	74,111	72,484	71,451
Less sublease rentals	**1,979**	2,154	1,944
	$72,132	$70,330	$69,507

Included in rent expense above is the cost of services provided by lessors of leased retail departments, estimated to aggregate $14,200, $12,800 and $13,200 in fiscal years 1984, 1983 and 1982, respectively.

Future minimum lease payments under operating leases, reduced by minimum rentals from subleases of $2,410, at February 29, 1984 aggregate $216,816. Annual payments under operating leases are $34,032, $30,203, $27,284, $24,146 and $20,444 for fiscal years 1985 through 1989, respectively.

12. Litigation

The company is or may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the company from all such proceedings will not have a material effect on the consolidated financial position.

13. Earnings per Share

Earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year, plus those common shares which would have been issued if conversion of all preferred stock and convertible debentures had taken place at the beginning of each year or since date of issuance. Stock options, the exercise of which would result in dilution of earnings per share, are considered common stock equivalents. Net earnings for these computations are increased by the net interest expense on the convertible debentures. Primary earnings per share do not differ significantly from fully diluted earnings per share.

(Dollars in thousands except per share data)

14. Business Segment Information

The company's four business segments are Apparel Manufacturing, General Retail Merchandising, Footwear Manufacturing and Retailing, and Furniture and Home Furnishings. Specific information relating to the operating companies and their products, which comprise each segment, is included on pages 8 through 21.

Summarized financial information by business segment is as follows:

	1984	1983	1982
Net sales to unaffiliated customers:			
Apparel	**$ 880,122**	$ 877,341	$ 899,161
General Retail	**693,914**	685,664	672,137
Footwear	**565,891**	546,041	587,035
Furniture	**538,959**	457,560	515,436
Total	**$2,678,886**	$2,566,606	$2,673,769
Operating earnings:			
Apparel	**$ 100,538**	$ 94,843	$ 104,824
General Retail	**28,951**	22,346	22,832
Footwear	**58,531**	57,114	78,381
Furniture	**59,231**	28,653	55,279
	247,251	202,956	261,316
Corporate expenses and interest cost	**(26,230)**	(37,080)	(38,046)
Earnings before income taxes	**$ 221,021**	$ 165,876	$ 223,270
Identifiable assets at year end:			
Apparel	**$ 439,837**	$ 418,563	$ 444,948
General Retail	**312,034**	343,041	352,206
Footwear	**280,764**	280,185	304,186
Furniture	**430,202**	406,527	414,823
	1,462,837	1,448,316	1,516,163
Corporate assets	**144,995**	106,659	22,787
Total	**$1,607,832**	$1,554,975	$1,538,950
Depreciation expense:			
Apparel	**$ 9,931**	$ 9,203	$ 8,968
General Retail	**11,400**	11,565	11,575
Footwear	**7,880**	7,584	7,274
Furniture	**12,388**	12,307	10,692
Capital expenditures:			
Apparel	**$ 12,855**	$ 9,870	$ 9,912
General Retail	**10,114**	9,308	10,340
Footwear	**7,626**	7,831	10,813
Furniture	**15,872**	12,116	20,165

Sales between business segments, which account for less than 1% of the sales of any one business segment, are considered immaterial and are netted against the sales of the respective segment. Operating earnings of the business segment include its sales less all operating expenses. Minority interests in certain subsidiaries are immaterial and have been included in corporate expenses and interest cost.

Identifiable assets are those assets used by each segment in its operations. Corporate assets consisted primarily of cash, marketable securities and marketable investment securities.

Substantially all of the company's sales are made to unaffiliated customers and no one customer accounted for 10% or more of consolidated sales. Foreign operations are not material in relation to the consolidated financial position or results of operations.

15. Inflation Accounting (Unaudited)

The cumulative effect of inflation has had a substantial impact on the company in recent years. Inflation affects the company in many ways—particularly the costs of acquiring inventory and the costs of replacing property, plant and equipment. The company's ability to react to inflation depends, among other things, on its ability to compensate for increased costs with increased sales prices, the extent to which productivity can be increased and its method of financing the enterprise.

The Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," requires the presentation of a statement of earnings that is derived by restating cost of goods sold, and depreciation and amortization to dollars, whose purchasing power is equivalent to the dollar for fiscal year ended February 29, 1984, as measured by the Consumer Price Index for All Urban Consumers (CPI-U) (the Constant Dollar method). The CPI-U is an index used to measure the average change in prices over time of consumer durable and nondurable goods and services.

Under the Constant Dollar method, cost of sales is adjusted to a common unit of measure. This adjustment reflects a charge for inflation for the period inventory was held prior to sale. Cost of sales is restated for changes in the levels of inventories priced under the FIFO method of inventory valuation.

The adjustment to depreciation reflects a charge for inflation from the period in which plant and equipment were purchased to the present. Depreciation was computed using the same depreciation methods and depreciable life assumptions utilized for the conventional financial statements.

The FASB encourages "experimentation within the guidelines of this statement and the development of new techniques that fit the particular circumstances of the enterprise." Management supports this experimentation and feels that more emphasis on financial data adjusted for the effects of inflation on a particular enterprise may provide financial statement users a more reliable basis for comparison among companies within the same industry.

The company recognizes that inflation has had an impact on the reported figures; however, the company also believes that the CPI-U can produce results as misleading as the historic figures presented in the financial statements. Accordingly, the disclosures of certain information in accordance with FASB Statement No. 33 was prepared using the CPI-U as it relates to the respective segments of the company. However, since the FASB could not assure the company that the Securities and Exchange Commission would accept these computations, a dual presentation is made also showing the effect of using the CPI-U for all industries, including those in which the company does not compete.

Current cost measures the effect of specific price changes on inventory, and property, plant and equipment as a result of inflation. The current cost of inventories owned is the current cost of purchasing the goods concerned or the current cost of the resources required to produce the goods concerned. The current cost of inventories was determined utilizing the FIFO method of inventory valuation adjusted for unrecognized price increases through application of the Bureau of Labor Statistics Producer Price Index (BLS-PPI) for those inventory items applicable to the company.

The current cost of property, plant and equipment was determined using the appropriate BLS-PPI, the Marshall Valuation Service Building Cost Index, and management's estimates and appraisals. The current cost of property measures costs of assets having the same or similar service potential as those owned by the company. Current cost does not measure owned assets against those technologically superior assets which may be available and which also may require capital outlays significantly greater than the current costs of assets presently owned by the company.

The purpose of current cost restatement is to provide an estimate of the impact of price changes on net income and cash flow. However, current cost data does not reflect specific plans for replacement of property, nor does it purport to represent precise measurements of assets and expenses, but rather approximations of price changes experienced by the company. The adjustment to cost of sales was determined on the same basis as calculated for constant dollars. The adjustment reflects the change in beginning and ending inventory levels as adjusted for increases in specific prices of inventory. The adjustment to depreciation reflects the increased expense associated with the current cost valuation of property, plant and equipment. Depreciation was computed using the same depreciation methods and depreciable life assumptions utilized for the conventional financial statements.

Inflation also affects monetary assets, such as cash and receivables, and monetary liabilities, such as debt, payables, and deferred income taxes. A company in a net monetary borrowing position may benefit during periods of inflation because dollars with lower purchasing power will be used to satisfy obligations in future years. Holding monetary assets in a period of inflation may result in a purchasing power loss.

The five-year comparison shows the effect of adjusting required historical data for the effects of inflation on both a constant dollar and current cost basis. Constant dollar cost is presented showing the results of using the CPI-U as it relates to the specific segments of the company.

The provision for income taxes remains unchanged because income tax laws do not allow the company to claim tax deductions related to these adjustments. As a result, the adjustments made for inflation are not tax effected. Thus, the effective tax rates and net earnings on an inflation adjusted basis are distorted.

All comparisons between the conventional financial statements and the required supplemental disclosures must be viewed with caution because of the many assumptions inherent in these estimates.

The summary consolidated statement of earnings adjusted for inflation for the year ended February 29, 1984, is as follows:

	As Reported in Financial Statements (Historical Dollars)	Adjusted for General Inflation (Constant Dollars)		Adjusted for Specific Price Changes (Current Cost)
		Company Segments	All Industries	
Net sales and other income	$2,723,381	$2,723,381	$2,723,381	$2,723,381
Cost of sales (a)	1,803,361	1,802,696	1,802,317	1,798,935
Selling, general and administrative expenses (a)	624,813	624,813	624,813	624,813
Depreciation expense	42,524	51,836	64,731	70,512
Interest expense	31,662	31,662	31,662	31,662
Income taxes	104,827	104,827	104,827	104,827
	2,607,187	2,615,834	2,628,350	2,630,749
Net earnings	$ 116,194	$ 107,547	$ 95,031	$ 92,632
Earnings per share	$7.02	$6.49	$5.74	$5.59
Effective income tax rate	47.4%	49.4%	52.5%	53.1%
Gain in purchasing power of net monetary assets held			$1,949	$1,949
Effect of increases in general price level				$ 78,334
Increases in specific prices (current cost) of inventory and property, plant and equipment (b)				$ 3,771
Excess of increase in general price level over increase in current cost				$ 74,563

(a) Excludes depreciation and amortization expense.
(b) The current cost of inventory was $671,570 at February 29, 1984 and $669,457 at February 28, 1983. The current cost of property, plant and equipment, net of accumulated depreciation and amortization, was $663,983 at February 29, 1984 and $745,104 at February 28, 1983.

(Dollars in thousands except per share data)

The following five-year comparison shows selected historical financial data adjusted for the effects of changing prices:

	1984	1983	1982	1981	1980
Net sales and other income:					
Historic dollars	$2,723,381	$2,596,385	$2,702,570	$2,395,875	$2,048,267
Constant dollars:					
Company segments	2,723,381	2,660,713	2,815,539	2,662,512	2,410,309
All industries	2,723,381	2,682,991	2,943,539	2,863,804	2,768,800
Net earnings:					
Historic dollars	116,194	85,762	118,165	121,203	106,706
Constant dollars:					
Company segments	107,547	61,422	75,857	84,211	
All industries	95,031	36,249	40,174	44,696	38,517
Current cost	92,632	60,976	82,824	62,251	76,744
Earnings per share:					
Historic dollars	7.02	5.22	7.23	7.42	7.35
Constant dollars:					
Company segments	6.49	3.74	4.62	5.15	
All industries	5.74	2.21	2.45	2.73	2.65
Current cost	5.59	3.71	5.05	3.81	5.28
Cash dividends declared per common share:					
Historic dollars	2.88	2.88	2.88	2.64	2.35
Constant dollars—all industries	2.88	2.98	3.14	3.16	3.18
Net assets at year end:					
Historic dollars	1,100,963	1,023,231	985,072	910,873	836,313
Constant dollars—all industries	1,372,976	1,289,923	1,230,428	1,136,337	1,076,985
Current cost	1,386,916	1,384,509	1,324,563	1,205,824	1,179,406
Excess of increase in general price level over increase in current cost	74,563	42,987	2,933	20,507	
Gain (loss) in purchasing power of net monetary assets	1,949	5,391	14,063	11,063	(1,253)
Market price at year end:					
Historic dollars	59.13	63.00	40.75	49.38	38.00
Constant dollars—all industries	$ 59.13	$ 65.10	$ 44.38	$ 59.02	$ 51.37
Average Consumer Price Index:					
Composite of company segments	194.4	189.7	186.6	177.6	165.2
All industries	300.5	290.8	275.9	251.4	222.3

16. Quarterly Financial Information (Unaudited)

The following quarterly information includes all adjustments necessary for a fair presentation.

	First	Second	Third	Fourth
Net Sales:				
1984	**$617,495**	**$694,886**	**$742,533**	**$623,972**
1983	609,268	665,533	688,454	603,351
1982	639,432	713,664	716,995	603,678
Gross Profit:				
1984	**$188,645**	**$215,095**	**$237,258**	**$217,522**
1983	190,620	200,691	214,871	200,897
1982	203,370	222,964	228,930	198,136
Net Earnings:				
1984	**$17,253**	**$27,625**	**$35,550**	**$35,766**
1983	16,174	19,892	25,147	24,549
1982	25,375	32,308	31,216	29,716
Earnings Per Share:				
1984	**$1.04**	**$1.67**	**$2.15**	**$2.16**
1983	0.98	1.22	1.54	1.48
1982	1.55	1.97	1.90	1.81
Common Dividends Paid Per Share:				
1984	**$0.72**	**$0.72**	**$0.72**	**$0.72**
1983	0.72	0.72	0.72	0.72
1982	0.72	0.72	0.72	0.72

17. Subsequent Event

On March 15, 1984, the company acquired all the outstanding stock of Abe Schrader Corporation for $38,248 in cash. The acquisition will be accounted for as a purchase and will be included in the company's results of operations from the date of acquisition. The proforma effects of including the results of operations of Abe Schrader Corporation in the consolidated results of operations of the company as if the purchase had taken place on March 1, 1983, do not have a material effect on the consolidated financial statements.

Independent Accountants' Report

The Board of Directors and Shareholders
INTERCO INCORPORATED:

We have examined the consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of February 29, 1984, and February 28, 1983 and 1982 and the related consolidated statements of earnings, shareholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of INTERCO INCORPORATED and subsidiaries at February 29, 1984, and February 28, 1983 and 1982 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

St. Louis, Missouri
April 9, 1984

Peat, Marwick, Mitchell & Co.

Five Year Consolidated Financial Review

(Dollars in thousands except per share data)

Years Ended	**1984**	1983	1982	1981	1980
For The Year					
Summary of operations:					
Net sales	**$2,678,886**	$2,566,606	$2,673,769	$2,368,456	$2,024,307
Cost of sales	**1,820,366**	1,759,527	1,820,369	1,591,635	1,379,768
Interest expense	**31,662**	35,072	37,201	20,284	9,316
Earnings before income taxes	**221,021**	165,876	223,270	232,021	205,735
As a percent of sales	**8.3%**	6.5%	8.4%	9.8%	10.2%
Income taxes	**104,827**	80,114	104,655	110,818	99,029
Net earnings	**116,194**	85,762	118,615	121,203	106,706
As a percent of sales	**4.3%**	3.3%	4.4%	5.1%	5.3%
Net earnings applicable to common stock	**116,204**	85,774	118,642	121,272	106,719
Per share of common stock:					
Earnings	**$7.02**	$5.22	$7.23	$7.42	$7.35
Dividends	**$2.88**	$2.88	$2.88	$2.64	$2.35
Average common and common equivalent shares outstanding (in thousands)	**16,562**	16,429	16,406	16,344	14,527
Cash dividends paid:					
On common stock	**$ 41,930**	$ 41,018	$ 40,683	$ 37,042	$ 33,563
On preferred stock	**$ 6,701**	$ 7,478	$ 7,809	$ 7,511	$ –
At Year End					
Working capital	**$ 852,847**	$ 828,842	$ 785,328	$ 711,551	$ 606,833
Property, plant and equipment, net	**408,365**	409,973	417,107	412,107	309,636
Capital expenditures:					
Company owned property	**47,627**	36,144	48,353	62,857	41,849
Capitalized leased property	**3,431**	3,966	3,940	5,860	4,759
Total assets	**1,607,832**	1,554,975	1,538,950	1,472,106	1,239,036
Long-term debt	**139,914**	193,341	198,054	187,208	60,225
Obligations under capital leases	**69,002**	73,785	76,820	79,925	80,718
Shareholders' equity	**1,100,963**	1,023,231	985,072	910,873	836,313
Book value per common share	**$ 68.82**	$ 64.64	$ 62.36	$ 57.76	$ 52.21

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

This discussion supplements the detailed information presented in the consolidated financial statements and footnotes which began on page 28. In addition, reference should be made to the operations review and Fiscal 1984 in Review on pages 10 through 26.

Net Sales—Net sales for fiscal 1984 were $2.68 billion, an increase of 4.4% from the $2.57 billion reported in fiscal 1983. Each of INTERCO's four operating groups achieved sales gains led by the Furniture Group whose volume increased by 17.8%. Net sales for fiscal 1983 were $2.57 billion, down 4.0% from the $2.67 billion reported in 1982. In fiscal 1983, the economic downturn continued to have an impact on all segments of the company. The Furniture Group showed a decrease of 11.2% with most of the decrease coming in the case goods operation. The softness in the sales of men's shoes, both at wholesale and retail, along with the decline in the sales of safety shoes which depends on industrial employment resulted in a decrease of 7.0% in the sales of the Footwear Group. Net sales in fiscal 1982 improved 12.9% over the $2.37 billion reported in fiscal 1981. A substantial portion of this increase was the result of the acquisition of Broyhill which was accounted for as a purchase.

Other Income, Net—Other income for fiscal 1984 increased by $14.7 million, or 49.4% over the prior year. For fiscal 1983 and 1982, other income rose $1.0 million, or 3.4% and $1.4 million, or 5.0%, respectively. The increase for fiscal 1984 was due principally to increased interest income, gains on the sale of marketable equity securities, insurance settlements and net debt retirements.

Gross Margins—Gross margins for fiscal 1984 were $858.5 million, or 32.0% of net sales compared to $807.1 million, or 31.4% of net sales and $853.4 million, or 31.9% of net sales in fiscal 1983 and 1982, respectively. The increase in the percentage and volume of gross margins in fiscal 1984 is primarily due to the improved sales volume and plant utilization and cost reduction programs.

Selling, General and Administrative Expenses—Selling, general and administrative expenses for fiscal 1984 were $650.3 million, or 24.3% of net sales compared to $635.9 million, or 24.8% of net sales and $621.7 million, or 23.3% of net sales in fiscal 1983 and 1982, respectively. The improvement in selling, general and administrative expenses as a percent of sales in fiscal 1984 was due to increased sales and the cost and expense reduction programs implemented over the past year.

Interest Expense—Interest expense in fiscal 1984 amounted to $31.7 million compared to $35.1 million and $37.2 million in fiscal 1983 and 1982, respectively. The decline of 9.7% in fiscal 1984 is attributable to a reduced level of long-term borrowing and the elimination of any short-term domestic borrowing during the year. The increase in fiscal 1982 was attributable to the assumed debts of a purchased company, increased interest rates on short-term borrowing to finance operational needs and the issuance of new debt.

Income Taxes—The effective tax rate for fiscal 1984 was 47.4% compared to 48.3% and 46.9% in fiscal 1983 and 1982, respectively. The increase in the effective rate for fiscal 1983 was the result of a slight increase in state tax rates and the effect of foreign currency revaluations in Mexico.

Earnings Per Share—Earnings per share for fiscal 1984 were $7.02, up 34.5% from the $5.22 reported in fiscal 1983 which reflected a 27.8% decrease from fiscal 1982. The increase in the earnings per share in fiscal 1984 reflects the strong showing of the Furniture Group, the effects of cost curtailment programs, and the reduced level of interest expense. The average shares outstanding for the last three years remained fairly constant.

Financial Condition

Faced with the prolonged economic slowdown in fiscal 1983, the company made a diligent effort to utilize its assets more effectively to maximize returns and maintain a strong working capital condition. The effects of this program had a substantial impact on the company's current financial condition.

Cash and short-term investments totaled $126.6 million at year end, an increase of $11.1 million over the prior year, after the repurchase of a portion of the company's 14-1/4% and 4-5/8% promissory notes.

Accounts receivable rose by $37.9 million, or 13.0%. The increase was due to an increased level of sales in the manufacturing segments and short-term notes receivable which were covered by letters of credit.

Inventories decreased by $1.1 million from the prior year. Increases in manufacturing companies' inventories, to meet improved demand, were offset by lower retail inventories at February 29, 1984.

Accounts payable and accrued expenses increased $29.8 million, or 14.9%, and a substantial portion of the increase is attributed to the higher level of manufacturing inventories.

Financing Arrangements—During fiscal 1984, and at each fiscal year-end, the company had no domestic short-term borrowings. To meet short-term working capital requirements, the company maintains a credit agreement enabling it to borrow up to $100 million in domestic or Euro-Dollar loans through February 28, 1987. Borrowings outstanding as of February 28, 1987 are repayable from that date through February 28, 1991. This credit facility is primarily intended to support commercial paper borrowings as required. The company also maintains other bank lines of credit as credit availability and additional support for the sale of commercial paper.

Long-term debt decreased by $53.4 million during the year after a decrease of $4.7 million and an increase of $10.8 million in fiscal 1983 and 1982, respectively. The principal decreases in 1984 were the exchange of 100,000 common shares plus $5.6 million in cash for $15.9 million face value of the 4-5/8% promissory notes and the repurchase of the $25.0 million of 14-1/4% promissory notes. The principal increase in fiscal 1982 was the remaining $19.7 million of the 14-1/4% promissory notes initiated in fiscal 1981.

Capital Expenditures—The company maintains formalized procedures for the review of capital expenditures. These include return on investment and project payback analyses.

Capital expenditures, for company-owned and capitalized leased property, aggregated $258.8 million during the last five years, of which $51.1 million occurred in fiscal 1984. Cash flow from operations provides the principal source of funds to support capital expenditures.

Inflation Accounting—In Note 15 of the Notes to Consolidated Financial Statements, the company reports on Inflation Accounting based on the Consumer Price Index for all Urban Consumers as required under Financial Accounting Standards Board Statement No. 33. In addition, the effect of inflation is also presented based on the Consumer Price Index as it relates to the respective segments of the company.

Board of Directors

Nathan S. Ancell
Chairman of the Board,
Ethan Allen Inc.

Ronald L. Aylward
Executive Vice President,
Administrative, of the Company

Zane E. Barnes
Chairman of the Board,
President and Chief Executive
Officer, Southwestern Bell
Corporation, and President and
Chief Executive Officer of
Southwestern Bell Telephone
Company

Paul H. Broyhill
Chairman of the Board,
Broyhill Furniture Industries, Inc.

Stanley M. Cohen
Chairman of the Board,
Central Hardware Company

Edwin S. Jones
Retired

Donald E. Lasater
Chairman of the Board and
Chief Executive Officer,
Mercantile Bancorporation, Inc.
and Chairman of the Board,
Mercantile Trust Company
National Association

Thomas H. O'Leary
Vice Chairman of the Board,
Burlington Northern Inc.

Norfleet H. Rand
Retired

John K. Riedy
Chairman of the Board of the
Company

Charles J. Rothschild, Jr.
President,
Campus Sportswear Company

Harvey Saligman
President and Chief Executive
Officer of the Company

Executive Committee

John K. Riedy, *Chairman*
Ronald L. Aylward
Norfleet H. Rand
Harvey Saligman

Audit Committee

Edwin S. Jones, *Chairman*
Zane E. Barnes
Donald E. Lasater
Thomas H. O'Leary

Executive Compensation and Stock Option Committee

Donald E. Lasater, *Chairman*
Zane E. Barnes
Edwin S. Jones
Thomas H. O'Leary
Norfleet H. Rand

Nominating Committee

Zane E. Barnes, *Chairman*
Donald E. Lasater
Thomas H. O'Leary
John K. Riedy
Harvey Saligman

Corporate Officers

John K. Riedy
Chairman of the Board

Harvey Saligman
President and Chief
Executive Officer

Ronald L. Aylward
Executive Vice President,
Administrative

Eugene F. Smith
Senior Vice President,
Finance

Stanley M. Cohen
Vice President

J. Carl Powers
Vice President

Charles J. Rothschild, Jr.
Vice President

Nathan S. Ancell
Vice President

Harry M. Krogh
Vice President

Paul H. Broyhill
Vice President

Duane A. Patterson
Secretary

Robert T. Hensley, Jr.
Treasurer

Stanley F. Huck
Controller

Keith E. Mattern
General Counsel and
Assistant Secretary

James K. Pendleton
Assistant Secretary

William R. Withrow
Assistant Treasurer

Russell L. Baumann
Assistant Controller

Wilfred G. Morice
Assistant Controller

Operating Board

John K. Riedy
Chairman of the Board of the Company

Harvey Saligman
President and Chief Executive Officer of the Company

Ronald L. Aylward
Executive Vice President, Administrative, of the Company

Nathan S. Ancell
Chairman of the Board, Ethan Allen Inc.

Edwin J. Baum
President, The Biltwell Company, Inc.

Lionel Baxter
President, Big Yank Corporation

Paul H. Broyhill
Chairman of the Board, Broyhill Furniture Industries, Inc.

Stanley M. Cohen
Chairman of the Board, Central Hardware Company

Webster L. Cowden, Jr.
President, Cowden Manufacturing Company

Herschel Cravitz
President, Queen Casuals, Inc.

Theodore A. Fell
President, Sidney Gould Co. Ltd.

Barry S. Fine
President, Fine's Men's Shops, Incorporated

Jean S. Goodson
Chairman of the Board, International Hat Company

Bernard Mayer
President, Idaho Department Stores Co.

William B. Klinsky
President, Alberts, Inc.

Harry M. Krogh
President, The Florsheim Shoe Company

Mark H. Lieberman
President, Londontown Corporation

Stanley Matzkin
President, Devon Apparel

Robert B. Peterson
Chairman of the Board, Sky City Stores, Inc.

J. Carl Powers
President, International Shoe Company

Charles J. Rothschild, Jr.
President, Campus Sportswear Company

Morton J. Schrader
President, Abe Schrader Corporation

Arthur Sibley
President, College-Town

Irving S. Wahl
Chairman of the Board, Stuffed Shirt Inc.

John Weil
President, Eagle Family Discount Stores, Inc.

Principal Companies of INTERCO

Apparel Manufacturing Group

Abe Schrader Corporation
New York, New York

Big Yank Corporation
New York, New York

The Biltwell Company, Inc.
St. Louis, Missouri

Campus Sportswear Company
Paramus, New Jersey

College-Town
Braintree, Massachusetts

Cowden Manufacturing Company
Lexington, Kentucky

Devon Apparel
Philadelphia, Pennsylvania

International Hat Company
St. Louis, Missouri

Londontown Corporation
Eldersburg, Maryland

Queen Casuals, Inc.
Philadelphia, Pennsylvania

Sidney Gould Co. Ltd.
Hauppauge, New York

Stuffed Shirt Inc.
New York, New York

General Retail Merchandising Group

Alberts, Inc.
Detroit , Michigan

Central Hardware Company
St. Louis, Missouri

Eagle Family Discount Stores, Inc.
Miami, Florida

Fine's Men's Shops, Incorporated
Norfolk, Virginia

Golde's Department Stores, Inc.
St. Louis, Missouri

Idaho Department Stores Co.
Caldwell, Idaho

Sky City Stores, Inc.
Asheville, North Carolina

United Shirt Distributors, Inc.
Detroit, Michigan

Footwear Manufacturing and Retailing Group

The Florsheim Shoe Company
Chicago, Illinois

International Shoe Company
St. Louis, Missouri

Senack Shoes, Inc.
St. Louis, Missouri

Furniture and Home Furnishings Group

Broyhill Furniture Industries, Inc.
Lenoir, North Carolina

Ethan Allen Inc.
Danbury, Connecticut

Shareholder Information

Transfer Agents
(Common and Preferred Stock)

Mercantile Trust Company
National Association
St. Louis, Missouri 63166
(314) 425-2755

Morgan Guaranty
Trust Company
New York, New York 10249
(212) 587-6434

Registrars
(Common and Preferred Stock)

Centerre Trust Company
St. Louis, Missouri 63178
(314) 231-9300

Morgan Guaranty
Trust Company
New York, New York 10249
(212) 587-6434

Dividend Disbursing Agent
(Common and Preferred Stock)

Mercantile Trust Company
National Association
St. Louis, Missouri 63166
(314) 425-2755

Independent Accountants

Peat, Marwick, Mitchell & Co.
St. Louis, Missouri 63101

Exchange Listings

Common and Preferred Shares and 14¼% Notes are listed on the New York Stock Exchange. Common Shares are also listed on the Midwest Stock Exchange. (Trading symbol: ISS)

Corporate Offices

Ten Broadway
St. Louis, Missouri 63102
(314) 231-1100
Mailing Address:
Post Office Box 8777
St. Louis, Missouri 63102

Annual Meeting

The Annual Meeting of Shareholders will be held at 10 a.m., Monday, June 25, 1984, at 7777 Bonhomme Avenue, 24th Floor, Clayton, Missouri. Notice of the meeting and a proxy statement will be sent to shareholders in a separate mailing.

INTERCO INCORPORATED
ST. LOUIS, MISSOURI